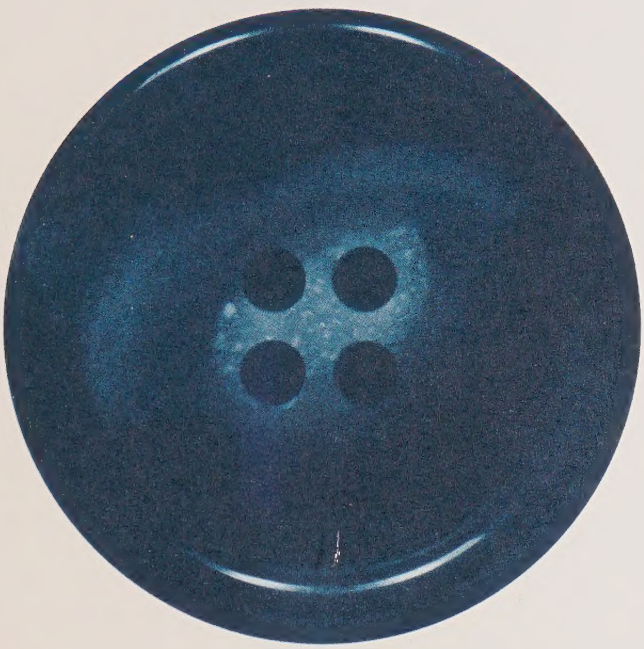
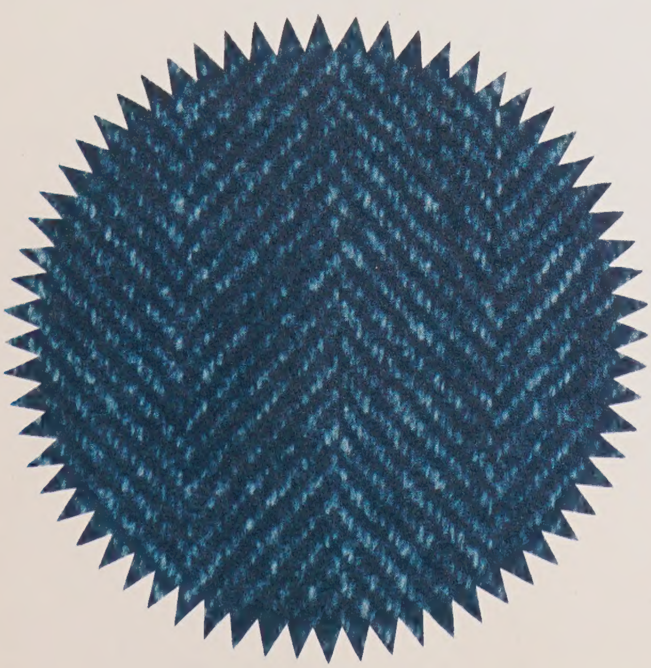
1965 ANNUAL REPORT

ROCKOWER OF CANADA LIMITED





ROCKOWER OF CANADA LIMITED

DIRECTORS AND OFFICERS	Harold Hertzman, *Director, President*
	Arnold I. Naiman, D.F.C., *Director, Chairman of the Board, Executive Vice-President*
	Morris Schwartz, *Director, Secretary-Treasurer*
	John W. Blain, Q.C., *Director*
	I. Budd Rockower, *Director,*
	Harry E. Rockower, *Director*
	Jacob R. Rockower, *Director*
	Herbert Kurtz, *Director*
	Desmond N. Stoker, *Director*
	G. P. H. Vernon, *Director*
	William R. Johnson, *Comptroller*
EXECUTIVE OFFICES	92 Orfus Road, Toronto 19, Ontario
AUDITORS	Pape, Strom, Sherman & Lavine 220 Bay Street, Toronto 1, Ontario
GENERAL COUNSEL	McCarthy & McCarthy 330 University Avenue, Toronto 1, Ontario
TRANSFER AGENTS & REGISTRAR	Canada Permanent Trust Company Toronto, Ontario and Montreal, Quebec
BANKERS	The Toronto-Dominion Bank Toronto, Ontario

To Our Shareholders

On behalf of the Board of Directors, I am pleased to report that 1965 was another year of record performance for your Company. The buoyancy of the Canadian economy together with increasing consumer acceptance of our merchandising methods is reflected in the following results.

Consolidated sales of $10,079,756 increased 17% over 1964; net earnings rose 42% to $507,210. These increases are the result of our Company's continuous refinement of discount merchandising techniques and improved efficiency, evidenced by the fact that over 55% of the gain in sales was achieved in the seventeen retail units established prior to 1964. In 1965 earnings slightly exceeded 5% of sales.

The Company's financial position remains strong with a working capital of $1,398,756 at the end of the year. Current assets of $2,021,490 were 3.2 times current liabilities. Your Company is utilizing investments in marketable preferred stocks and short term bank notes for employment of cash reserves.

Earnings per share after preferred dividend requirements were $2.26 compared with $1.53 last year. The usual quarterly dividend of 15c on the preferred shares, together with four common share dividends of 15c per share, were paid during the year.

At a meeting of the Board of Directors on February 21, 1966, a common share dividend of 17½c per share was declared, payable April 1, 1966.

The unamortized balance of expenses which were incurred in connection with the issue of the 6% Cumulative Redeemable Convertible First Preference Shares in 1961 has been written off completely this year, as the Company has the right to redeem these shares after October 1, 1966. This accounting change resulted in an additional amortization charge and corresponding decrease in net earnings for the year of $29,224.

Late in 1964 we acquired a Company engaged in the manufacture of men's and boys' hosiery. As this take-over was not completed in time for us to rectify that Company's pre-acquisition operational problems, its financial statements were not consolidated last year. During the current year these problems were for the most part overcome; manufacturing capacity increased over 30% and a profit was achieved. As a result of accelerated capital cost allowances on fixed

assets permitted by Income Tax regulations, as well as prior losses which will be carried forward, the subsidiary will be able to reduce its future income taxes and make an increasing contribution to consolidated earnings.

Product development, improved packaging and quality control continue as prime considerations in our merchandising. We have successfully achieved consumer acceptance in certain price ranges and are constantly elevating this acceptance to include finer quality and higher priced merchandise . . . still at discount prices. Our expanding import program, with particular stress on higher quality, complements and integrates completely with our overall merchandising objectives.

The Oshawa Wholesale Limited recently announced it had increased its ownership in the Rite-Way chain to 75%, and continued Rite-Way expansion is anticipated. Your Company leases the men's and boys' wear departments in the new Rite-Way stores opened November 17, 1965, and March 9, 1966. The operations of Allied Towers Merchants Limited are improving significantly and it is possible that their expansion will be resumed.

In concluding this fifth annual report, it must be noted that the success of any Company is in large measure attributable to the efforts of individuals. On behalf of the Board of Directors, I wish to express sincere gratitude and appreciation to our associates and suppliers for their outstanding support and cooperation, and to our own staff particularly, for their continuing loyalty and dedication.

Harold Hertzman

Harold Hertzman
President

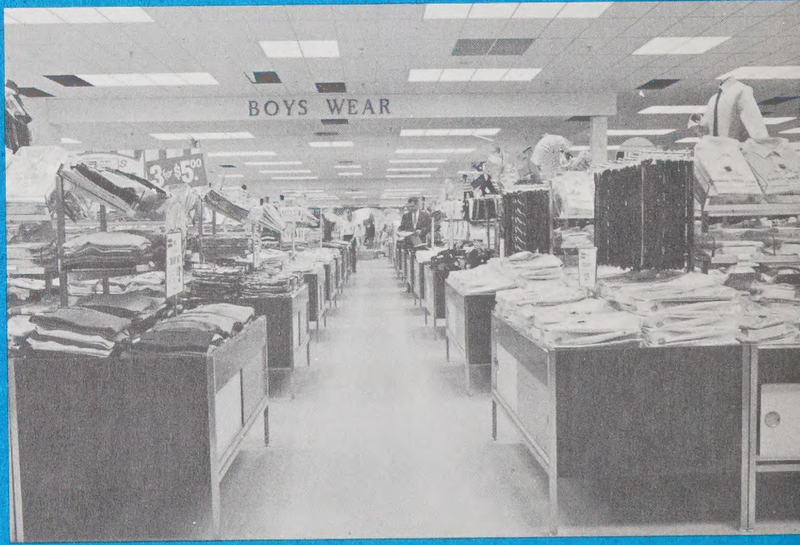
March, 1966

Financial Highlights

	1965 (52 weeks)	1964* (53 weeks)	INCREASE Dollars	Per cent
Sales	$10,079,756	$8,568,306	$1,511,450	17.6
Earnings before income taxes	1,067,475	762,599	304,876	40.0
Income taxes	560,265	406,221	154,044	37.9
Net earnings	507,210	356,378	150,832	42.3
Dividends paid	166,200	135,666	30,534	22.5
Earnings per share (after preferred dividends)	2.26	1.53	.73	47.7

*Subsidiary not consolidated.

ANNUAL REPORT / ROCKOWER OF CANADA LIMITED
AND SUBSIDIARY COMPANY




HALL OF FAME


AS ADVERTISED!
DRESS SOCKS
47¢
SAVE MONEY!


MENS BOYS WEAR
DRESS SOCKS
47¢


HALL OF FAME


MENS & BOYS WEAR

Consolidated Balance Sheet

Assets	1965 (January 1, 1966)	1964* (January 2, 1965)
Current:		
Cash	$ 58,484	$ 221,283
Temporary cash investments	450,000	300,000
Proceeds of cash sales, due from lessors	59,490	64,716
Merchandise inventories, at net realizable value less normal profit margin	1,123,585	887,974
Marketable securities, at cost (approximate market value $273,109)	291,237	—
Sundry receivables and prepaid expenses	38,694	25,518
	2,021,490	1,499,491
Investments, at cost:		
Sinking fund debenture, maturing January 2, 1970 (principal repayments due during 1966 $30,000)	150,000	150,000
Shares in and advances of $88,707 to subsidiary not consolidated in 1964	—	118,993
	150,000	268,993
Fixed, at cost:		
Furniture and fixtures	227,449	198,759
Machinery and equipment	136,912	—
Leasehold improvements	16,869	14,342
Motor vehicles	22,256	17,615
	403,486	230,716
Less — Accumulated depreciation	160,814	91,821
	242,672	138,895
Other:		
Cash surrender value of life insurance	19,829	10,307
Sundry deposits	1,381	1,425
Unamortized share issue expenses (note 3)	—	34,306
	21,210	46,038
	$2,435,372	$1,953,417

*Subsidiary not consolidated.

See accompanying notes to financial statements.

Liabilities

	1965 (January 1, 1966)	1964* (January 2, 1965)
Accounts payable and accrued liabilities	$ 379,325	$ 253,476
Income taxes payable	243,409	204,921
Total Liabilities	622,734	458,397

Shareholders' Equity

Capital stock (note 2)		
Authorized:		
217,000 First preference shares of a par value of $10 each, issuable in series		
500,000 Common shares of a par value of 50 cents each		
Issued and fully paid:		
72,000 6% Cumulative redeemable convertible first preference shares, 1961 series	720,000	720,000
205,000 Common shares	102,500	102,500
	822,500	822,500
Contributed surplus	119,987	119,987
Retained earnings	870,151	552,533
	1,812,638	1,495,020
	$2,435,372	$1,953,417

Approved on behalf of the Board:

Harold Hertzman, *Director,* Arnold I. Naiman, *Director,*

Consolidated Statement of Earnings

	1965 (For fifty-two weeks ended January 1, 1966)	1964* (For fifty-three weeks ended January 2, 1965)
SALES	$10,079,756	$8,568,306
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES, before undernoted items	8,916,127	7,730,939
Depreciation	60,648	62,411
Directors' fees	1,200	1,200
	8,977,975	7,794,550
OPERATING PROFIT	1,101,781	773,756
Amortization of share issue expenses (note 3)	34,306	11,157
EARNINGS BEFORE INCOME TAXES	1,067,475	762,599
INCOME TAXES	560,265	406,221
NET EARNINGS	$ 507,210	$ 356,378

*Subsidiary not consolidated.

Consolidated Statement of Retained Earnings

	1965 (For fifty-two weeks ended January 1, 1966)	1964* (For fifty-three weeks ended January 2, 1965)
Balance at beginning of period (1965 adjusted to consolidate subsidiary—note 1)	$ 529,141	$ 331,821
Net earnings for period	507,210	356,378
	1,036,351	688,199
Dividends declared:		
Preference shares	43,200	43,416
Common shares	123,000	92,250
	166,200	135,666
Balance at end of period	$ 870,151	$ 552,533

*Subsidiary not consolidated.

Consolidated Statement of Source and Application of Funds

	1965 (For fifty-two weeks ended January 1, 1966)	1964* (For fifty-three weeks ended January 2, 1965)
SOURCE OF FUNDS		
Net earnings	$ 507,210	$ 356,378
Expenses not requiring a cash outlay:		
Depreciation	60,648	62,411
Amortization of share issue expenses	34,306	11,157
Other items	844	55,555
Cash provided from operations	603,008	485,501
Disposal of fixed assets	7,409	6,783
	610,417	492,284
APPLICATION OF FUNDS		
Shares in and advances to subsidiary not consolidated in 1964	—	118,993
Investment in sinking fund debenture	—	150,000
Acquisition of fixed assets	74,420	50,999
Cash surrender value of life insurance	9,522	10,307
Preference shares purchased for cancellation	—	36,773
Dividends on preference shares	43,200	43,416
Dividends on common shares	123,000	92,250
	250,142	502,738
INCREASE (DECREASE) IN WORKING CAPITAL FOR PERIOD	360,275	(10,454)
WORKING CAPITAL AT BEGINNING OF PERIOD (1965 adjusted to consolidate subsidiary)	1,038,481	1,051,548
WORKING CAPITAL AT END OF PERIOD	$1,398,756	$1,041,094

*Subsidiary not consolidated.

Notes to Consolidated Financial Statements

For fifty-two weeks ended January 1, 1966

1. SUBSIDIARY COMPANY

The Company's wholly-owned subsidiary is engaged in the manufacture of items being merchandised through the Company's retail outlets.

The accounts of the subsidiary have not been consolidated in the 1964 financial statements as its acquisition was not completed until late in 1964. The subsidiary reported a loss for the period from acquisition to January 2, 1965, in the amount of $17,185, which includes a charge of $8,362 for depreciation applicable to the period prior to acquisition. Inter-company profits in inventories as at January 2, 1965, amounted to $6,207.

2. FIRST PREFERENCE SHARES 1961 SERIES

Each first preference share may be converted, until October 1, 1971, at the option of the holder, into one common share, and provision is made for adjustment of the conversion privilege in certain circumstances. First preference shares 1961 series may be redeemed after October 1, 1966, at the option of the Company, at $10.50 per share. The payment of dividends on any shares ranking junior to the first preference shares is restricted.

3. SHARE ISSUE EXPENSES

During the period the Company wrote off the unamortized balance of expenses which had been incurred in connection with the issue of the first preference shares 1961 series. This change in accounting procedures results in an additional amortization charge and corresponding decrease in net earnings for the period of $29,224.

4. DEPRECIATION

The Company's subsidiary has claimed capital cost allowances for tax purposes in 1964 and intends to do so in 1965, the accumulated amount exceeding depreciation recorded in the accounts by $95,467. No provision for the subsidiary's income taxes is required as a result of the application of its 1964 loss against the current year's income; accordingly, the additional capital cost allowances being claimed will be available to reduce income taxes otherwise payable by the subsidiary in respect of future years.

5. LONG TERM LEASES AND LICENSE AGREEMENTS

The Company has entered into long term agreements for the rental of and right to do business in nineteen leased departments. Each of these agreements provides for payment by the Company to the lessor of a percentage of net sales (as defined in each agreement) of the Company made in the particular store, of which a designated portion is to be expended by the lessor for advertising. Minimum rentals payable during 1966 under these agreements aggregate approximately $809,000.

Auditors' Report

To the Shareholders of Rockower of Canada Limited:

We have examined the consolidated balance sheet of Rockower of Canada Limited and its wholly-owned subsidiary company as at January 1, 1966, and the consolidated statements of earnings, retained earnings, and source and application of funds for the fifty-two (52) week period ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings, and source and application of funds, supplemented by the notes thereto, present fairly the financial position of Rockower of Canada Limited and its wholly-owned subsidiary company as at January 1, 1966, and the results of their operations for the fifty-two (52) week period ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period with the exception of the changes in accounting procedures as stated in notes 1 and 3 to the consolidated financial statements, with which changes we concur.

Pape, Strom, Sherman & Lavine

Chartered Accountants.

Toronto, Canada,
February 18, 1966.

Five Year Record

	1965 (52 weeks)	1964† (53 weeks)	1963 (52 weeks)	1962 (52 weeks)	1961 * (23 weeks)
Sales	$10,079,756	$8,568,306	$7,252,976	$6,205,533	$2,531,134
Earnings before income taxes	1,067,475	762,599	502,013	234,089	149,268
Income taxes	560,265	406,221	257,906	112,818	60,825
Net earnings	507,210	356,378	244,107	121,271	88,443
Net earnings as a percent of sales	5.03%	4.16%	3.37%	1.95%	3.49%
Common share earnings (after preferred share dividend requirements)	2.26	1.53	96c	36c	40c
Working capital	1,398,756	1,041,094	1,051,548	883,274	864,336
Current ratio	3.2-1	3.3-1	3.2-1	3.5-1	2.1-1
Net worth	1,812,638	1,495,020	1,311,081	1,159,514	1,093,443
Dividends	166,200	135,666	66,800	55,200	—
Preferred shares outstanding (at year end)	72,000	72,000	76,035	80,000	80,000
Common shares outstanding	205,000	205,000	205,000	205,000	205,000
Number of retail units (at year end)	19	18	17	13	9

*From commencement of operations, July 1961.
†Subsidiary not consolidated.

CORPORATE MANAGEMENT	H. Hertzman A. I. Naiman, D.F.C. M. Schwartz
ADMINISTRATIVE MANAGEMENT	W. R. Johnson B. Clouse P. Walsh D. Whitton
MERCHANDISE MANAGEMENT	N. G. Baum J. A. Duco R. C. Jessel R. L. Wagman S. Zon
DIVISIONAL MANAGEMENT	P. Zettel J. R. Beaudoin J. G. Robert W. Thomas

STORE MANAGEMENT

Toronto	—J. R. Charbonneau W. Douglas S. Levene H. P. Schulz L. A. Van Mels
Belleville	—S. B. Bochnek
Brampton	—P. Neufeld
Cornwall	—B. Weekes
Hamilton	—M. E. Stanzel D. W. Watson
London	—Geo. Davis
Ottawa	—K. Zomer
Peterborough	—L. Muise
St. Catharines	—C. S. Clark
Waterloo	—A. Atkinson
Welland	—Gary Davis
Montreal	—W. L. Edwards V. H. Gordon E. St. Pierre
Quebec	—J. C. Roy

Printed in Canada